



**Office of the Inspector General
Los Angeles Unified School District**

**Audit of CNS Environmental, Inc.
Contract No. 1790013/4400005413**

CA 21-1262

December 8, 2020



**Los Angeles Unified School District
Office of the Inspector General**

Dr. Richard A. Vladovic, Ed.D., President
Jackie Goldberg
Dr. George J. McKenna III
Mónica García
Scott M. Schmerelson
Nick Melvoin
Kelly Gonez
Members of the Board

Austin Beutner
Superintendent of Schools

William Stern
Inspector General

December 8, 2020

Ms. Judith Reece, Chief Procurement Officer
Procurement Services Division
Los Angeles Unified School District
333 S. Beaudry Ave., 28th Floor
Los Angeles, CA 90017

RE: CNS Environmental, Inc.
Contract No. 1790013/4400005413

Dear Ms. Reece:

This is the final report on our audit of CNS Environmental, Inc. related to contract no. 1790013/4400005413.

Please contact our office if you have any questions.

Sincerely,

Austin E. Onwualu

Austin Onwualu, CPA, CIG, CGMA
Deputy Inspector General, Audits

William Stern

William Stern, MBA, CIG, CISM, CPP, CFE
Inspector General

Attachment

c: Richard Lui
Cheri Thomas

TABLE OF CONTENTS

Independent Auditor's Report	1
Introduction, Scope and Objectives, Methodology	2
Results of Audit	3
Audit Team	4
Appendix I: CNS's Response to the Draft Audit Report	5
Appendix II: Procurement Services Division's Response to the Draft Audit Report	6



Los Angeles Unified School District Office of the Inspector General

Dr. Richard Vladovic, Ed.D., President
Jackie Goldberg
Dr. George J. McKenna III
Monica Garcia
Scott M. Schmerelson
Nick Melvoin
Kelly Gonez
Members of the Board

Austin Beutner
Superintendent of Schools

William Stern
Inspector General

Independent Auditor's Report

We have examined the amounts billed by CNS Environmental, Inc. (CNS) under contract number 1790013/4400005413 (contract) for the period from March 1, 2017 through June 30, 2020 and CNS's compliance with the terms and conditions of the contract. CNS's management is responsible for the amounts billed and for complying with the terms and conditions of the contract. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting CNS's compliance with the contract requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the amounts billed by CNS under the contract for the period from March 1, 2017 through June 30, 2020 were adequately supported and allowable in accordance with the contract terms and conditions in all material respects, CNS provided the services as required by the task orders, and the 890% increase in the contract price was reasonable and justified.

Our testing of a sample of invoices submitted by CNS found that 23.5 hours out of the 6,094 hours billed on the invoices were not supported. CNS indicated that the discrepancies were due to mistakes made by staff on either the invoices or the timesheets. The questioned costs related to those unsupported labor hours billed totaled \$2,020.

Austin E. Onwualu

Austin Onwualu, CPA, CGMA, CIG
Deputy Inspector General, Audits

October 6, 2020



Audit of CNS Environmental, Inc. Contract No. 1790013/4400005413

Introduction

The Office of the Inspector General (OIG) audited contract number 1790013/4400005413 (contract) awarded by the Los Angeles Unified School District (District) to CNS Environmental, Inc. (CNS) to provide for comprehensive asbestos, lead-containing material, and hazardous materials consulting services. The contract had an original not-to-exceed amount of \$500,000 and the initial contract term was from March 1, 2017 through February 28, 2018. From September 25, 2017 through June 30, 2020, the District executed eleven (11) contract amendments that increased the contract amount by \$4,450,000. As of June 30, 2020, the contract had an amount not-to-exceed \$4,950,000 and an expiration date of February 28, 2021.

Scope and Objectives

The objectives of our examination are to determine whether (i) the amounts billed were adequately supported and allowable according to the contract terms and conditions, (ii) the services were provided as required by the task orders, and (iii) the 890% increase in contract price was reasonable and justified.

Methodology

To accomplish our examination objectives, we performed the following procedures:

- Interviewed District staff in the Facilities Environmental Technical Unit (FETU) Branch to obtain an understanding of the District's internal control and processes
- Inquired with CNS's management about their internal controls and business operations
- Recalculated the mathematical accuracy of the billed invoices
- Validated the number of direct labor hours billed against timesheets and payroll registers
- Verified the certifications of staff assigned to work under the contract
- Verified that authorized hourly rates were used to bill for services provided
- Reviewed documentation of pre-authorization for over-time billed
- Validated the amounts of direct costs billed against supporting documents such as vendor invoices, cancelled checks, laboratory reports/results, and proposals submitted to the District
- Reviewed engineering assessment and close out reports that were issued for the completed task orders
- Inquired and confirmed with the FETU Branch whether the services provided were as required by the task orders
- Inquired with the FETU Branch Project Complex Manager regarding the reasons for the contract amendments
- Reviewed the purchase orders and task orders that necessitated the contract amendments



Audit of CNS Environmental, Inc. Contract No. 1790013/4400005413

Results of Audit

1. Determine whether the amounts billed were adequately supported and allowable according to the contract terms and conditions.

CNS billed the District 360 invoices totaling \$2,599,072 from March 1, 2017 through June 30, 2020. We tested a statistically selected sample of 33 invoices totaling \$533,313, which represented 20.52% of the total amount billed for the audit period. A total of 6,094 hours of professional services and \$9,420 of other services such as laboratory and miscellaneous services were billed on the sample of 33 invoices.

Testing of Professional Services Billed

CNS's employees report the number of hours worked on weekly time sheets by project, staff type, labor codes, etc. We validated 6,094 direct labor hours billed against 1,353 individual time sheets and reviewed the related payroll registers. We also verified that the labor hours incurred were within the task order's period of performance. Our review found that while most of the billed hours were supported by timesheets and payroll registers, there were 23.5 hours that were not. The total amount billed related to the 23.5 hours was \$2,020. According to CNS, the discrepancies were due to typos and errors on the invoices and/or time sheets.

Testing of Laboratory Services Billed

For laboratory services, CNS was required to use District laboratories when possible and bill the District based on fixed unit rates; if outside laboratories were used, CNS was required to bill the cost of the testing to the District as direct costs and was not allowed to bill any mark-up. For the lab testing billed, we agreed the number of tests billed to lab testing reports issued by District laboratories and/or vendor invoices from outside laboratories if applicable. We also reviewed cancelled checks for payments made to the outside laboratories to ascertain that no mark-up was billed. In addition, we validated that CNS billed using the appropriate rates for the type of services provided and verified that the expenses incurred were applicable to the assigned task order. Our review did not find any exceptions.

Recommendation

CNS should refund the District \$2,020 for the over-billed professional services.

CNS's Response

CNS agreed with our finding and stated that a check for the over-billed amount has been sent to the District.



Audit of CNS Environmental, Inc. Contract No. 1790013/4400005413

PDS's Response

PSD agreed with our finding and has sent a demand letter to CNS in the amount of \$2,020. PSD stated that due diligence must be strictly performed by CNS to ensure that the labor hours billed should correspond to the individuals' time sheets and related payroll registers.

2. Determine whether CNS provided the services as required by the task orders.

For the task orders under the contract, CNS could be required to perform project assessment and asbestos/lead material identification (Phase I work), project design for asbestos/lead material in-place management/abatement (Phase II work), and/or project monitoring of asbestos/lead material in-place management/abatement (Phase III work). At the completion of any Phase I, Phase II, and Phase III work, CNS was required by the contract/task orders to submit a report.

We reviewed the reports issued by CNS for the task orders related to the sample of 33 invoices that we tested for objective no. 1. We compared the required scope of work per each task order with the completed scope of work outlined in the report and confirmed with the FETU Branch that CNS completed the work as required by the task orders. Based on these procedures, we found that CNS completed the services in accordance with the required scope of work for 29 out of the 33 task orders, 3 task orders were still in progress, and one task order was cancelled.

3. Determine whether the increase in the contract amount was reasonable and justified.

The contract had an original not-to-exceed amount of \$500,000, and the initial contract term was from March 1, 2017 through February 28, 2018. From September 25, 2017 through June 30, 2020, the District executed eleven contract amendments that increased the contract amount by \$4,450,000. By June 30, 2020, the contract had a not-to-exceed amount of \$4,950,000 and the expiration date was extended to February 28, 2021. The increase in the contract amount was reasonable and justified because the amendments were executed to increase the contract's capacity, thus allowing task orders to be issued for services needed by the District. We noted that, from the inception of the contract through June 30, 2020, the District awarded to CNS 490 task orders totaling \$4,275,794 under the contract. We reviewed the contract amendments and noted that they were approved by the FETU administrator, Maintenance & Operations Director or Deputy Director, and Facilities Contracts as required by Facilities Services Divisions' policies and procedures.

Audit Team

This audit was performed by the following auditors:

Stella Lai, Audit Manager
Joanna Vuong, Senior Auditor



Ms. Vuong

As mentioned in your summary below.

1. Of the \$533,313 in invoiced checked, the discrepancy was less than 0.4%.
It appears some of the discrepancies were hours put to the wrong LAUSD project. Other projects appeared to have been underbilled. A check for the difference has been sent to the LAUSD.
2. Services were provided based on FETU requests.
3. CNS previous contract with the LAUSD was for \$2,000,000/year. When they amount on this contract started so much lower, but the number of LAUSD projects did not decrease, the increase to the contract was to be expected.

CNS provides Proposals for each Phase on the projects, Ph-1, 2 and 3. On some projects where we did the Phase-1 & 2 we did not get the Phase-3. On some other projects we received the Phase-3 where another consultant did the Phase 1 & 2. On the Phase-3's, typically the number of hours are dictated by the district, and the price per hour is also dictated by the LAUSD so each consultant would have the same proposal, so the only advantage is to have the Consultant that is already familiar with the site and project (by doing the Phase-1 & 2) be the one to do the Phase-3.

We appreciate the opportunity to work with LAUSD, and hope to continue to into the future.

Thank you,

Edward D. Spinney
CNS Environmental, Inc.

Los Angeles Unified School District Procurement Services Division

AUSTIN BEUTNER
Superintendent

MEGAN K. REILLY
Deputy Superintendent



DAVID D. HART
Chief Financial Officer

JANICE SAWYER
Business Manager

JUDITH REECE
Chief Procurement Officer

November 17, 2020

Mr. Austin Onwualu, Deputy Inspector General, Audits
Los Angeles Unified School District
Office of the Inspector General (OIG)
333 S. Beaudry Avenue, 12th Floor
Los Angeles, CA 90017

**RE: RESPONSE TO DRAFT AUDIT REPORT NO. CA 00-0000
CNS ENVIRONMENTAL, INC. CONTRACT NO. 1790013/4400005413**

Dear Mr. Onwualu,

Procurement Services Division (PSD) is in receipt of the above-referenced draft incurred cost audit report dated October 22, 2020. Below is an outline of our responses to the audit findings and recommendations.

Recommendation #1: CNS should refund the District \$2,020 for over-billed professional services.

Response: Agree with the recommendation. Due diligence must be strictly performed by CNS Environmental Inc., making sure that direct labor hours correspond to individual time sheets and related payroll registers. CNS has agreed that discrepancies were due to typos and errors on the invoices and/or times sheets and Complex Project Manager Greta Galoustian has verified the over-billing amount. A demand letter was sent to CNS in the amount of \$2,020, payable to the District. If you have any questions, please do not hesitate to contact me at judith.reece@lausd.net

Sincerely,

A handwritten signature in blue ink that reads "Judith Reece".

JUDITH REECE
Chief Procurement Officer

cc: A. Padi
R. Laughton
G. Galoustian
J. Ballardo
R. Kapoor
J. Woessner

Know about fraud, waste or abuse?

Tell us about it.

Maybe you are a school district employee, a parent or just a concerned citizen. Regardless, you can make a difference!

Maybe you know something about fraud, waste, or some other type of abuse in the school district.

The Office of the Inspector General has a hotline for you to call. You can also email or write to us.

If you wish, we will keep your identity confidential. You can remain anonymous, if you prefer. And you are protected by law from reprisal by your employer.

Whistleblower Protection

The Board approved the Whistleblower Protection Policy on February 12, 2002. This policy protects LAUSD employees who make allegations of improper governmental activity from retaliation or reprisal. To assure the reporting of any activity that threatens the efficient administration of the LAUSD, reports that disclose improper governmental activities shall be kept confidential.

General Contact Information

Office of the Inspector General
333 S. Beaudry Avenue, 12th Floor
Los Angeles, CA 90017
Phone: (213) 241-7700
Fax: (213) 241-6826
<https://achieve.lausd.net/oig>

Fraud, Waste and Abuse Hotline

(866) 528-7364 or (213) 241-7778

inspector.general@lausd.net